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SUBJECT: Winning the Battle but Losing the War - Bananas

Sensitive but Unclassified. Not for Internet Distribution.

¶1. (SBU) Summary. In November 2002, the Government of Turkey agreed to remove a number of non-tariff barriers on banana imports in response to a WTO case initiated by the Government of Ecuador. Although the barriers were eliminated, the GOT raised import tariffs by 29% from an already high 120%. Problems with Turkey's import regime have also discouraged companies from investing in Turkey. However, Turkey's eventual membership in the European Union may revive interest in investment in the food sector. End Summary.

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The Banana Wars  
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¶2. (SBU) On December 12, AgCounselor met with a banana importer to discuss resolution/withdrawal of a WTO case initiated by the Government of Ecuador against Turkey. Since November 1999, companies had complained that the GOT has restricted imports of bananas using a number of non-tariff barriers. Among the barriers used by Turkey were delays in issuing certificates of control up to 45 days; issuing licenses only for small uneconomical amounts (10,000 boxes or 50 tons, in the case of bananas); and lastly, limiting the time required for completing pesticide applications which proved difficult for many importers.

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Let's go to Geneva  
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¶3. (SBU) In response to exporter complaints, Ecuador wanted the WTO to address these issues. Over the past two years, Ecuador and Turkey had consulted on the issue. According to one importer, the Ministry of Foreign Trade realized that they would lose the case and might be subject to sanctions. As a result, in November 2002, the GOT agreed to eliminate all the barriers. However, as a concession to the Ministry of Agriculture, the GOT raised tariffs on banana imports from 120 percent to 149 percent which is Turkey's bound rate.

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Why We Have No Bananas  
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¶4. (SBU) The banana case illustrates the extent of the GOT's desire to protect local industry. Turkish banana production meets only about 15 percent of total demand. Given climate and soil conditions, Turkish producers cannot significantly increase production to any great extent. According to one importer, Turkey is now producing bananas in green houses, which given energy costs is extremely uneconomical. In fact, the high tariffs penalize the Turkish consumer who must pay more a great deal more for bananas. Turkish producers generally increase their own prices to those of the imported bananas and reap the profits. Tariffs on other fruits (apples and pears) are about 60 - 65 % and are applied seasonally. It is difficult, as far as importers are concerned, to see why a country needs 149 or even 120 percent tax to protect its industry. The tariff is even more costly since the season for bananas is only 3 months while the tariff remains in place for the entire year.

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Effect still undetermined  
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15. (SBU) In 2001, banana imports decreased by 30 percent, although this decline was attributed more to the economic downturn rather than the tariffs. The import problems have discouraged companies from investing in any facilities in Turkey. Now, however given the possibility of Turkish EU membership on the rise, companies may again explore the possibility of investing in this market.

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Will the new government be better?

16. (SBU) There is a general feeling among traders that the situation may improve with the new government. In November 2002 after the withdrawal of the non-tariff barriers, certificates of control were issued in a week and for unlimited quantities. Pesticide requirements also have become somewhat more flexible. Under the previous government, the MHP party viewed all imports as a threat to Turkish agriculture. Although the jury is still out, people are hopeful that the situation will change for the better.

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Comment: Agriculture - Problems but Hope for the Future?

17. (SBU) In general, the worst problems in U.S.-Turkish bilateral trade are in the agriculture sector. For the most part, non-tariff barriers are more prevalent in agriculture products versus industrial products. The banana affair is good example of Turkey's approach to trade. The threat of WTO action compelled the GOT to resolve the trade dispute. Of course, in the case of bananas, it took the GOT 2 years to reach that point. At the same time, the GOT will often go to great lengths to protect its domestic agriculture often at the expense of the Turkish consumer who spends close to 50% of his/her income on food. Trade problems seem to have discouraged foreign companies from investing in Turkey fearing similar problems with Turkey's application of investment rules. It's a good sign that, at least initially, companies believe that the new government will create a more positive atmosphere for trade and investment. In addition, potential EU membership may encourage companies to invest here in the hope of basing food production and processing facilities in Turkey to supply EU countries with food products.

Pearson